

STATEMENT OF
HONORABLE CONSTANCE HORNER
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

FOR A HEARING OF THE

SUBCOMMITTEE ON EMPLOYMENT AND HOUSING
COMMITTEE ON GOVERNMENT OPERATIONS
UNITED STATES HOUSE OF REPRESENTATIVES

ON

CAFETERIA BENEFITS FOR FEDERAL EMPLOYEES

MARCH 1, 1988

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR INVITING ME TO APPEAR TODAY TO PRESENT THE
VIEWS OF THE OFFICE OF PERSONNEL MANAGEMENT (OPM) ON THE
SUBJECT OF CAFETERIA BENEFITS FOR FEDERAL EMPLOYEES.

OVER THE LAST SEVERAL DECADES THE FEDERAL WORKFORCE, LIKE
THE NATIONAL WORKFORCE AS A WHOLE, HAS BECOME MORE DIVERSE
IN ITS DEMOGRAPHIC CHARACTERISTICS. BENEFIT PROGRAMS THAT
WERE DESIGNED IN A PREVIOUS ERA FOR THE WORKERS OF THAT ERA
MAY NOT IN ALL CASES FIT THE NEEDS OR PREFERENCES OF TODAY'S
EMPLOYEES. IN RECOGNITION OF THIS FACT, BENEFIT MANAGERS
ALL OVER THE COUNTRY HAVE BEEN REEXAMINING THE PROGRAMS THEY
OFFER. SOME OF THEM - TO DATE A SMALL BUT GROWING NUMBER -
HAVE INSTITUTED FLEXIBLE OR CAFETERIA STYLE BENEFIT PROGRAMS
AS A MEANS OF ADDRESSING THE DIVERSITY OF NEEDS.

2.

OPM IS EXTREMELY INTERESTED IN THESE DEVELOPMENTS BECAUSE WE UNDERSTAND THAT IF WE ARE TO STAFF THE FEDERAL AGENCIES SUCCESSFULLY IN THE COMING DECADES, WE MUST OFFER TYPES AND LEVELS OF BENEFITS THAT ARE COMPETITIVE WITH THOSE AVAILABLE IN OTHER SECTORS. THE BENEFIT PROGRAMS WE ADMINISTER FOR FEDERAL EMPLOYEES ARE EXTREMELY LARGE AND COMPLEX, HOWEVER, AND ROOTED IN HUNDREDS OF PAGES OF FEDERAL LAW. SINCE THEY AFFECT THE LIVES AND WELFARE OF MILLIONS OF PEOPLE, CHANGING THEM IN ANY FUNDAMENTAL WAY SHOULD BE THE RESULT OF A CAUTIOUS, DELIBERATIVE PROCESS. NONETHELESS, OPM HAS WORKED TO INTRODUCE AS MUCH FLEXIBILITY AND MODERNIZATION AS POSSIBLE INTO FEDERAL EMPLOYEE BENEFITS AS WE ADDRESS THE NEED FOR CHANGE.

A MAJOR STEP IN THE INTRODUCTION OF FLEXIBILITY INTO FEDERAL EMPLOYEE BENEFITS WAS ACCOMPLISHED IN 1986 WITH THE ENACTMENT OF THE FEDERAL EMPLOYEES RETIREMENT SYSTEM (FERS). THIS SYSTEM FOR NEW FEDERAL EMPLOYEES REPLACES ITS PREDECESSOR ENACTED IN 1920 AND IS VERY SIMILAR TO THE BEST PENSION SYSTEMS AVAILABLE IN THE PRIVATE SECTOR. MOST NOTABLY, IT INCLUDES A THRIFT SAVINGS PLAN THAT IS ANALOGOUS TO THE "401(K)" PLANS THAT ARE AN INTEGRAL PART OF MANY PRIVATE SECTOR CAFETERIA BENEFIT PROGRAMS.

3.

WITH FERS IN PLACE, OPM HAS TURNED ITS ATTENTION TO MODERNIZING AND MAKING MORE FLEXIBLE OTHER BENEFITS WE OFFER. AT PRESENT WE ARE ESPECIALLY CONCERNED WITH OUR HEALTH INSURANCE PROGRAM. WHILE IT OFFERS MORE CHOICE THAN ANY CAFETERIA PLAN WE KNOW OF, IT IS, NONETHELESS TOO EXPENSIVE AND DISAPPOINTINGLY INEFFICIENT.

AS A RESULT OF THESE CONCERNS, WE HAVE ENGAGED A CONSULTANT--TOWERS, PERRIN, FORSTER & CROSBY (TPF&C)--TO CONDUCT A COMPREHENSIVE STUDY OF THE PROGRAM TO DETERMINE HOW ITS EFFICIENCY AND EFFECTIVENESS CAN BE IMPROVED. WE HOPE THAT THE STUDY WILL PROVIDE A FACTUAL BASIS FOR EFFORTS TO REFORM THE FEHB PROGRAM. WE WILL CERTAINLY EVALUATE ANY REFORM INITIATIVE IN TERMS OF ITS CAPACITY TO MEET THE NEEDS OF OUR VERY DIVERSE WORK FORCE AND ITS LONG-TERM COMPATIBILITY WITH AN OVERALL PROGRAM OF MORE FLEXIBLE EMPLOYEE BENEFITS.

AS YOU KNOW, OPM RECENTLY DEVELOPED A PROPOSAL TO ESTABLISH A LONG-TERM CARE (LTC) PROGRAM FOR FEDERAL EMPLOYEES WHICH INCORPORATES THE FLEXIBLE BENEFITS PRINCIPLE. SPECIFICALLY, OPM'S PROPOSED LTC PROGRAM WOULD ALLOW FEDERAL EMPLOYEES AGE 50 AND OVER TO TRADE ONE BENEFIT (LIFE INSURANCE), FOR WHICH THEY MAY FEEL A DIMINISHING NEED, FOR ANOTHER BENEFIT (LONG-TERM CARE INSURANCE) WHICH IS NOT CURRENTLY AVAILABLE

AND WHICH MAY BE OF GREATER USE. BY ALLOWING EMPLOYEES TO CONVERT A PORTION OF THEIR LIFE INSURANCE AND ASSOCIATED RESERVES AND GOVERNMENT CONTRIBUTIONS TO LONG-TERM CARE INSURANCE, IT SHOULD BE POSSIBLE TO MAKE NURSING HOME AND HOME HEALTH CARE COVERAGE AVAILABLE AT A REASONABLE PRICE. LAST SEPTEMBER, OPM'S PROPOSAL WAS INTRODUCED AS SENATE BILL 1738 BY SENATOR PETE WILSON, WITH SENATE REPUBLICAN LEADER ROBERT DOLE AND SENATOR DAVE DURENBERGER AS CO-SPONSORS.

WE STRONGLY SUPPORT A MORE FLEXIBLE BENEFITS PROGRAM FOR FEDERAL EMPLOYEES. WE BELIEVE, HOWEVER, FOR A NUMBER OF REASONS, THAT THE NEAR-TERM INTRODUCTION OF A COMPREHENSIVE CAFETERIA BENEFITS PLAN WOULD BE UNWISE IF NOT INFEASIBLE, AND THAT IT IS VITAL TO ENGAGE IN A PERIOD OF STUDY AND ASSESSMENT BEFORE DOING SO. OUR CONCERNS REFLECT ISSUES OF COST AND ADMINISTRATION. EXPERIENCE UNDER THESE TYPES OF PLANS IS STILL RELATIVELY SLIGHT - ALMOST ALL OF THE CAFETERIA PLANS NOW IN EXISTENCE ARE LESS THAN FIVE YEARS OLD. MOREOVER, THE APPLICABILITY OF THE CAFETERIA BENEFIT CONCEPT IN A GOVERNMENTAL SETTING WHERE THE EMPLOYER OFTEN HAS LESS CONTROL OVER PLAN DESIGN, PRICING, AND OPERATION, IS EXTREMELY UNCERTAIN.

WE HAVE PARTICULAR RESERVATIONS ABOUT THE TYPE OF CAFETERIA PLAN THAT INCORPORATES A FLEXIBLE SPENDING ACCOUNT. A 1985 STUDY BY THE DEPARTMENT OF HEALTH AND HUMAN SERVICES CONCLUDED THAT WHEN SUCH ACCOUNTS ARE USED IN CONNECTION WITH HEALTH INSURANCE THEY CONTRIBUTE TO RISING HEALTH CARE COSTS BY ENCOURAGING UTILIZATION THROUGH TAX INCENTIVES. PEOPLE SPEND MORE WHEN THEY ARE SPENDING PRE-TAX DOLLARS. OUR HEALTH INSURANCE PROGRAM HAS EXPERIENCED HUGE COST INCREASES RECENTLY AND WE, LIKE THE REST OF THE COUNTRY, ARE LOOKING FOR WAYS TO CONTAIN, NOT TO ENCOURAGE HEALTH CARE EXPENDITURES.

SECONDLY, CAFETERIA PLANS GENERALLY APPLIED TO A POPULATION AS LARGE AS THE FEDERAL WORKFORCE COULD RESULT IN A VERY SIGNIFICANT LOSS OF TAX REVENUE - POSSIBLY IN THE HUNDREDS OF MILLIONS EACH YEAR. IN LIGHT OF THE FEDERAL GOVERNMENT'S BUDGET DEFICITS AND CURRENT SPENDING CONSTRAINTS, INCURRING THESE TAX EXPENDITURES WOULD REQUIRE A POLICY DECISION, BALANCING THESE COSTS AGAINST THOSE OF OTHER GOVERNMENT PROGRAMS OR INCREASED DEBT.

FINALLY, THE LAW AND REGULATIONS GOVERNING CAFETERIA PLANS IN GENERAL AND FLEXIBLE SPENDING ACCOUNTS IN PARTICULAR HAVE BEEN CHANGED SEVERAL TIMES IN RECENT YEARS AND ARE STILL THE SUBJECT OF CONSIDERABLE CONTROVERSY. FOR EXAMPLE, IN 1984 CONGRESS PUT A NUMBER OF RESTRICTIONS ON CAFETERIA PLANS WHICH FORCED MANY EMPLOYERS TO REVAMP THEIR FLEXIBLE SPENDING ACCOUNT PLANS. IN 1986 CONGRESS MADE SIGNIFICANT CHANGES IN THE NONDISCRIMINATION RULES APPLICABLE TO CAFETERIA PLANS. ALSO, WE UNDERSTAND THAT THERE WAS AN ATTEMPT AT THE END OF 1987 TO PUT A \$500 CAP ON PRETAX SALARY REDUCTION UNDER CAFETERIA PLANS. UNTIL THIS AREA OF THE LAW STABILIZES, IT WOULD BE UNWISE TO CONSIDER ERECTING UPON IT THE HUGE SYSTEMS NECESSARY TO COVER THE FEDERAL WORKFORCE.

IN SUMMARY, THE ADMINISTRATION IS WELL AWARE OF THE NEED TO MODERNIZE AND MAKE MORE FLEXIBLE THE BENEFIT PROGRAMS AVAILABLE TO FEDERAL EMPLOYEES AND IS PROGRESSING TOWARDS THAT GOAL. GIVEN THE SIZE AND COMPLEXITY OF OUR BENEFIT SYSTEMS, THEY MUST BE CAREFULLY REVIEWED ON A PROGRAM BY PROGRAM BASIS. WE ARE QUITE MINDFUL, HOWEVER, OF THEIR INTERRELATIONSHIPS AND OF THE POTENTIAL DESIRABILITY OF COMBINING THEM AT SOME FUTURE POINT INTO A COMPREHENSIVE FLEXIBLE BENEFITS PLAN.